

GENERAL OFFICES

2185 West Broadway, Vancouver, B.C., Canada
Telephone: (604) 736-6481

RETAIL LOCATIONS — KELLY'S STERO MARTS

CORPORATE OWNED

540 Granville St., Vancouver, B.C.
2185 West Broadway, Vancouver, B.C.
2714 West Broadway, Vancouver, B.C.
1664 West Fourth Ave., Vancouver, B.C.
Oakridge Shopping Centre, Vancouver, B.C.
Park Royal Shopping Centre, Vancouver, B.C.
611 Columbia St., New Westminster, B.C.
22 Victoria St., Nanaimo, B.C.
648 Yates St., Victoria, B.C.
Parkwood Shopping Centre, Prince George, B.C.
10068 Jasper Ave., Edmonton, Alta.
110 - 8th Ave. S.W., Calgary, Alta.
322 Yonge St., Toronto, Ont.
784 Yonge St., Toronto, Ont.
949 Granville St., Vancouver, B.C.

FRANCHISED LOCATIONS

171 Victoria St., Kamloops, B.C.
605 - No. 3 Road, Richmond, B.C.
441 Bernard, Kelowna, B.C.
10650 King George Highway, Surrey, B.C.
7303 Kingsway, Burnaby, B.C.
1760 Lonsdale, North Vancouver, B.C.
3 Yale Road, Chilliwack, B.C.
7 West Hastings St., Vancouver, B.C.
22324 - Dewdney Trunk Rd., Haney, B.C.
3204 - 30th Ave., Vernon, B.C.
31 - 10th Ave., Cranbrook, B.C.
Qwanlin Mall, Whitehorse, Yukon Territories
530 - 3rd Ave. W., Prince Rupert, B.C.
32222 A South Fraser Way, Abbotsford, B.C.

WHOLESALE LOCATIONS - PRO-SOUND DISTRIBUTORS LTD.

2185 West Broadway, Vancouver, B.C.
63 Advance Road, Toronto, Ont.
4985 Buchan Street, Montreal, Que.

AR27



KELLY-DEYONG SOUND CORPORATION LTD.

Report to the Shareholders

FOR THE SIX MONTHS ENDED

JANUARY 31, 1974



KELLY-DEYONG
SOUND CORPORATION LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months ended January 31, 1974
(with comparative figures for 1973)

REPORT TO THE SHAREHOLDERS

Consolidated sales of Kelly-Deyong Sound Corporation Ltd. and its subsidiaries amounted to \$8,553,850 for the six month period ended January 31, 1974, an impressive increase of 70% over the same period last year.

Kelly-Deyong achieved net earnings before extraordinary items of \$268,369 for the six month period under review compared with \$194,784 for the same period last year, an increase of 38%. The extraordinary items amounted to \$107,734 as compared with the previous period amount of \$195,564.

Kelly-Deyong Sound Corporation Ltd. has continued to rapidly expand its franchise operations. Thirteen franchise stores were in operation as at January 31, 1974 with five more locations starting in the next few months. The company has recently opened corporate owned stores in Halifax, Kingston and Toronto.

All indications are that Kelly-Deyong Sound Corporation Ltd. will continue to maintain an orderly growth with satisfactory earnings.

Vancouver, B.C.
March 21, 1974

B.N. Tessler
Managing Director

	1974	1973
Sales	\$8,553,850	\$5,042,261
Cost of sales, selling, general, and administrative expenses	<u>8,014,957</u>	<u>4,651,913</u>
Earnings before taxes on income and extraordinary items	538,893	390,348
Taxes on income	<u>270,524</u>	<u>195,564</u>
Earnings before extraordinary items	268,369	194,784
Extraordinary items		
Recovery of income taxes on application of losses carried forward	<u>107,734</u>	<u>195,564</u>
Net earnings	<u>\$ 376,103</u>	<u>\$ 390,348</u>
Average number of shares outstanding	<u>945,700</u>	<u>522,500</u>
Earnings per share		
Basic and fully diluted		
Before extraordinary items	28¢	37¢
Extraordinary items	<u>11</u>	<u>37</u>
	<u>39¢</u>	<u>74¢</u>

Notes to Consolidated Financial Statement:

The Consolidated Statement of Earnings for the six months ended January 31, 1974 and 1973 have not been audited and, of necessity, include certain estimated figures in order to present the results as accurately as possible.



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AUDITORS

Peat, Marwick, Mitchell & Co.,
Vancouver, B.C.

REGISTRAR AND TRANSFER AGENT

Yorkshire Trust Co.,
900 West Pender St., Vancouver, B.C.

EXCHANGE LISTING

Vancouver Stock Exchange

FINANCIAL HIGHLIGHTS

	Year Ended July 31, 1974	Year Ended July 31, 1973
OPERATING SUMMARY		
Gross Sales	\$17,725,323	\$10,150,488
Net Earnings		
Before extraordinary items	427,525	308,636
After extraordinary items	544,525	546,231
FINANCIAL STATUS		
Total Assets	6,778,607	3,570,182
Working Capital	2,252,672	1,766,585
Shareholders' Equity	2,474,331	1,925,846
PER COMMON SHARE		
Net Earnings		
Before extraordinary items	.45	.36
After extraordinary items	.57	.61
Equity	2.59	2.04
STATISTICAL DATA		
Number of Employees	231	160
Number of Shareholders	322	349
Number of Shares	954,700	945,700

BOARD OF DIRECTORS

JACQUES BARBEAU
Director

SYDNEY BELZBERG
Director

R.L. McQUARRIE
Secretary & Director

ROBERT SCOLNICK
Director

KARL STEIN
Director

B.N. TESSLER
President and Director

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Vancouver, B.C.
March 21, 1974

B.N. Tessler
Managing Director

Sales

Cost of

and

exp

Earnings

income

taxes

Taxes

Earnings

before

Extraordinary

items

Receivable

accounts

payable

Net earnings

Average

output

Earnings

before

taxes

and

extraordinary

Notes

The

six

months

ended

January

31, 1974



FINANCIAL HIGHLIGHTS

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THE PRESIDENT'S MESSAGE

TO THE SHAREHOLDERS

It is my pleasure, on behalf of the Board of Directors, to submit this annual report detailing the progress of Kelly-Deyong Sound Corporation Ltd. for the fiscal period ended July, 31, 1974.

Sales and earnings rose to record levels in 1974.

Sales for the year amounted to \$17,725,323 as compared to \$10,150,488 for the previous period, an increase of 74%.

Net earnings amounted to \$544,525 or \$0.57 per share, while earnings from operations increased by 38 percent to \$427,525 or \$0.45 per share, compared with \$308,636 for the previous year.

Extraordinary income items amounted to \$117,000 for the year as compared to \$237,595 for the previous year.

RETAILING — KELLY'S STEREO MARTS

During the past year Kelly's has increased its network of corporate and franchise stores by 16 to a total of 40 stores throughout Canada. The new stores are summarized as follows:—

CORPORATELY OWNED:

Vancouver, B.C.
Halifax, Nova Scotia
Kingston, Ontario

FRANCHISED:

Vernon, B.C.	Port Alberni, B.C.
Cranbrook, B.C.	Inuvik, N.W.T.
Whitehorse, Y.T.	Courtenay, B.C.
Prince Rupert, B.C.	St. Catharines, Ontario
Prince George, B.C.	Toronto, Ontario
Abbotsford, B.C.	Penticton, B.C.
Terrace, B.C.	

The Kelly's Stereo Mart Stores had sales amounting to \$11,419,966 as compared to \$6,624,951 for the previous period. This reflects an increase of 72 percent.

DISTRIBUTION

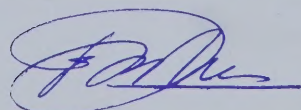
Pro Sound Distributors Limited, our wholly owned importing and distribution arm, now has offices and distribution facilities in Vancouver, Toronto and Montreal, as the exclusive Canadian distributor of the world renowned line of Akai tape recorders, receivers, amplifiers and speakers.

PRO-LINEAR ACOUSTICS LTD.

In order to maintain a controlled supply of audio speakers, a manufacturing division, Pro-Linear Acoustics Ltd., was set up. Plans were formulated and have been implemented for the installation of a speaker manufacturing plant located in Vancouver, B.C. Start-up is planned for late in 1974.

IN CONCLUSION

On behalf of the Board, I would like to express our appreciation to all our customers, suppliers and staff for the support that made 1974 our best year. We at Kelly's are confident that with careful planning we can meet the future with a flexible operation that will function well, despite any problems caused by inflation and possible adverse economic conditions.

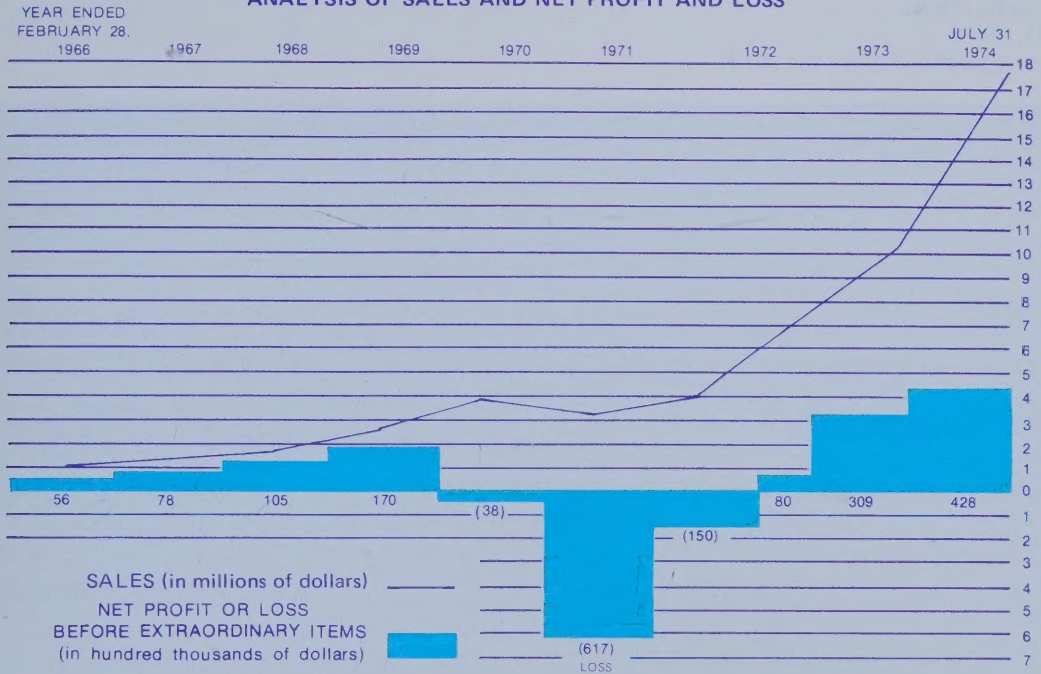


On Behalf of The Board
B.N. TESSLER

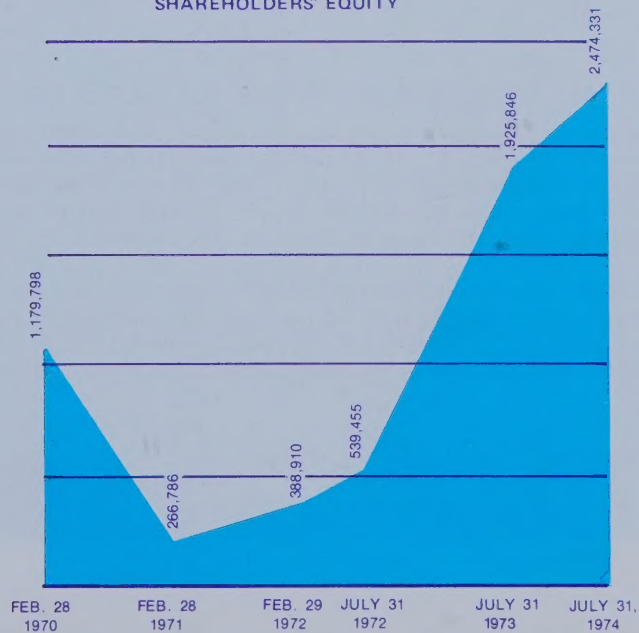


GRAPHICAL PRESENTATION

ANALYSIS OF SALES AND NET PROFIT AND LOSS



SHAREHOLDERS' EQUITY



CONSOLIDATED BALANCE SHEET

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARIES
July 31, 1974
(With comparative figures for 1973)

ASSETS

	1974	1973
Current assets:		
Cash	\$ 147,108	369,432
Accounts receivable	1,523,266	623,908
Inventories (Note 1)	4,827,139	2,397,813
Marketable securities, at cost (market value \$28,729)	31,079	—
Prepaid expenses	28,356	19,768
Total current assets	6,556,948	3,410,921
Fixed assets (Notes 1 and 2)	215,923	147,945
Deferred income taxes (Note 1)	5,736	11,316
	<u>\$6,778,607</u>	<u>3,570,182</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Kelly-Deyong Sound Corporation Ltd. and subsidiaries as of July 31, 1974 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at July 31, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chartered Accountants

Vancouver, British Columbia
September 25, 1974

Leat, Marwick, Mitchell & Co.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current liabilities:		
Bank loan (Note 3)	\$1,300,000	750,000
Accounts payable and accrued liabilities	1,382,881	631,567
Trade acceptances payable	697,942	41,088
Income taxes payable	344,466	22,073
Due to parent company, Steintron International Electronics Ltd.	578,987	199,608
Total current liabilities	4,304,276	1,644,336
Shareholders' equity:		
Capital stock (Note 4):		
Common shares of no par value. Authorized 1,000,000 shares; issued 954,700 shares	2,064,399	2,060,439
Retained earnings (deficit), per accompanying statement (Note 5)	409,932	(134,593)
Total shareholders' equity	2,474,331	1,925,846
Commitments and contingent liabilities (Note 6).		
	\$6,778,607	3,570,182

See accompanying notes.

On Behalf of the Board:



Director



Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARIES
Year ended July 31, 1974
(With comparative figures for 1973)

	1974	1973
Sales	\$17,725,323	10,150,488
Cost of sales	13,062,035	7,283,107
Gross profit	4,663,288	2,867,381
Selling, general and administrative expenses (Note 7)	3,861,175	2,305,046
Operating income	802,113	562,335
Other income:		
Finance fees	37,498	27,110
Rental income	23,559	25,675
Other	9,328	4,968
	70,385	57,753
Earnings before taxes on income and extraordinary item	872,498	620,088
Taxes on income (Note 1):		
Current	439,393	259,668
Deferred	5,580	51,784
	444,973	311,452
Earnings before extraordinary item	427,525	308,636
Extraordinary item:		
Recovery of income taxes on application of loss carry forward	117,000	237,595
Net earnings (Note 8)	544,525	546,231
Deficit at beginning of year	134,593	680,824
Retained earnings (deficit) at end of year (Note 5)	409,932	(134,593)

See accompanying notes.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARIES
Year ended July 31, 1974
(With comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
Source of funds:		
From current operations:		
Net earnings	\$ 544,525	546,231
Add (deduct) non-fund items:		
Depreciation	88,073	63,807
Gain on disposal of fixed assets	(44)	(202)
Deferred income taxes	<u>5,580</u>	<u>51,784</u>
Funds provided by operations	638,134	661,620
Issue of shares for cash	3,960	840,160
Proceeds of sale of fixed assets	<u>700</u>	<u>2,234</u>
Total funds provided	642,794	1,504,014
Application of funds:		
Purchase of fixed assets	<u>156,707</u>	<u>17,694</u>
Increase in working capital	486,087	1,486,320
Working capital at beginning of year	<u>1,766,585</u>	<u>280,265</u>
Working capital at end of year	<u><u>\$2,252,672</u></u>	<u><u>1,766,585</u></u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KELLY-DEYONG SOUND CORPORATION LTD. AND SUBSIDIARIES July 31, 1974

1. Significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries:

Kelly's Stereo Mart Franchises Ltd.	International Discount Records Ltd.
Claude Crocker's Music Centre Ltd.	Kelly's on Seymour Ltd.
Trio Merchandisers Ltd.	Pro-Sound Distributors Limited
Pro-Linear Acoustics Ltd.	

All material inter-company transactions have been eliminated.

Inventories:

These have been valued at the lower of cost, on a first-in, first-out basis, or net realizable value.

Depreciation and amortization:

Depreciation has been recorded on the straight line method at the following rates:

Fixtures and equipment	10%	Automotive equipment	20%
------------------------	-----	----------------------	-----

Additions and betterments are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Leasehold improvements are being charged to earnings over a five year term.

Income taxes:

The company follows the tax allocation basis of accounting for income taxes.

Taxes deferred to future years as a result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income taxes. The timing differences relate primarily to depreciation.

In previous years the company followed the practice of recording in its accounts the potential reduction in future income taxes arising from the excess of capital cost allowances available over depreciation to be charged to future earnings. This amounted to \$63,100 at February 29, 1972, at which time the company decided to discontinue the practice. Of this potential reduction \$2,115 was realized in the year ended July 31, 1974 (1973 — \$51,784). The balance relates to a subsidiary company which has not realized the reduction available.

2. Fixed assets, at cost less depreciation:

	1974	1973
Fixtures and equipment	\$272,113	216,679
Automotive equipment	32,205	18,531
	<u>304,318</u>	<u>235,210</u>
Less accumulated depreciation	159,559	126,053
	<u>144,759</u>	<u>109,157</u>
Leasehold improvements, less amortization of \$196,899 (1973 — \$144,648)	71,164	38,788
	<u>\$215,923</u>	<u>147,945</u>

3. Bank loan:

The bank loan is secured by a floating charge demand debenture and a general assignment of book debts.

4. Capital stock:

Changes in the common shares during the year were as follows:

	Shares	Value
Issued at beginning of year	945,700	\$2,060,439
Options exercised for cash	9,000	3,960
Issued at end of year	<u>954,700</u>	<u>\$2,064,399</u>

The options for common shares had been granted to certain employees, exercisable at 44¢ per share during the year following the completion of seven years continuous service with the company.

The balance of options not exercised during the year have been waived and there are no outstanding options at July 31, 1974.

5. Dividend restriction:

Under the terms of the demand debenture (Note 3) the payment of dividends is restricted to \$15,000 per annum.

6. Commitments and contingent liabilities:

Commitments:

Approximate future annual lease rentals are as follows:

1975 and 1976	\$235,000
1977	190,000
1978	140,000
1979	125,000

Contingent liabilities:

Of the parent company's bank borrowings the company has guaranteed the amount of \$1,700,000.

7. Information on statement of earnings:

The following amounts are included in selling, general and administrative expenses.

	1974	1973
Depreciation and amortization	\$ 88,073	63,807
Interest	116,983	63,085
Remuneration of directors and senior officers, as defined by the British Columbia Companies Act	213,483	136,904

8. Earnings per share:

Basic earnings per share are:

	1974	1973
Earnings before extraordinary item	45¢	36¢
Extraordinary item	12¢	25¢
Net earnings	<u>57¢</u>	<u>61¢</u>

The 1974 earnings per share have been calculated using the weighted daily average number of shares outstanding. The earnings per share for 1973 were calculated to reflect the full dilutive effect of a rights issue of 419,200 shares for \$838,400 in April, 1973.



(\$,000 Omitted)	Year Ended July 31/74	Year Ended July 31/73	Five Months Ended July 31/72	Year Ended Feb. 28/72	Year Ended Feb. 28/71
Cash	\$ 147	\$ 369	\$ 144	\$ 45	\$ 4
Accounts receivable	1,523	624	445	351	238
Inventory of merchandise	4,827	2,398	1,817	1,789	806
Marketable securities	31	—	—	—	—
Prepaid expenses	28	20	19	9	47
Fixed assets	216	148	196	217	390
Deferred income tax	6	11	63	63	36
TOTAL ASSETS	\$ 6,778	\$ 3,570	\$ 2,684	\$ 2,474	\$ 1,521
Bank loan	\$ 1,300	\$ 750	\$ 700	\$ 700	\$ 390
Accounts payable & accruals	1,383	631	628	676	736
Trade acceptances payable	698	41	—	—	—
Income taxes payable	344	22	—	—	—
Due to parent company — Steintron International Electronics Ltd.	579	200	817	709	—
Mortgage payable	—	—	—	—	128
TOTAL LIABILITIES	4,304	1,644	2,145	2,085	1,254
Capital stock	2,064	2,060	1,220	1,220	1,220
Surplus (Deficit)	410	(134)	(681)	(831)	(953)
TOTAL SHAREHOLDER'S EQUITY	2,474	1,926	539	389	267
TOTAL LIABILITIES & EQUITY	\$ 6,778	\$ 3,570	\$ 2,684	\$ 2,474	\$ 1,521
Sales	\$17,725	\$10,150	\$ 2,485	\$ 4,045	\$ 3,487
Cost of sales, selling, general and administrative costs	16,852	9,530	2,335	4,234	4,139
EARNINGS (LOSS) BEFORE UNDERNOTED ITEMS	873	620	150	(189)	(652)
Taxes on income					
Current	439	259	70	—	(8)
Deferred	6	52	—	(39)	(27)
TOTAL TAXES ON INCOME	445	311	70	(39)	(35)
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	428	309	80	(150)	(617)
Extraordinary items	117	237	70	272	(298)
NET EARNINGS (LOSS)	\$ 545	\$ 546	\$ 150	\$ 122	\$ (915)
PER SHARE DATA					
Equity per share	\$ 2.59	\$ 2.04	\$ 1.03	\$.74	\$.51
Earnings per share before extraordinary items (see note 8)	\$.45	\$.36	\$.15	\$ (.28)	\$ (1.19)
Net earnings per share (see note 8)	\$.57	\$.61	\$.29	\$.24	\$ (1.76)
STATISTICAL DATA					
Number of shareholders	322	349	350	360	320
Common shares outstanding end of period	954,700	945,700	522,500	522,500	522,500
Number of employees	231	160	125	120	115

LOCATION DIRECTORY

GENERAL OFFICES

2145 West Broadway, Vancouver, B.C.
Telephone: (604) 736-6481

RETAIL LOCATIONS – KELLY'S STEREO MARTS

CORPORATE OWNED

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St. Catherines, Ont.
Lethbridge, Alberta
Campbell River, B.C.

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